THE
Dan Smoot Report

DAN SMOOT

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INFLATION

In 1919, John Maynard Keynes, British economist, published a book entitled *The Economic Consequences of the Peace.*

Keynes said:

Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method, they not only confiscate, but they confiscate arbitrarily.... Lenin certainly was right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million can diagnose.

In May, 1933, Congress passed the Agricultural Adjustment Act, authorizing the President, among other things, to reduce the weight of the gold dollar, which was not only our coin but our standard unit of value, containing 25.8 grains of gold.

The purpose of reducing the weight of our gold dollar was to raise prices. If government could reduce the gold content, it could issue more dollars which would not be worth as much as the old dollars. Hence, a merchant who had been charging $2.00 for a pair of shoes would have to charge more, because the dollars he accepted in exchange for the shoes had less purchasing power. The prices of all other commodities, and of labor, would have to go up accordingly and for the same reason. This would require the circulation of more money.

New deal economists said this increased circulation of money would stimulate our economy. Yet, they knew that people would not willingly accept the cheapened currency.

Consider a man who owed $5000 on a home in 1933. He had agreed to pay the bank 5000 dollars, each of which had the value of 25.8 grains of gold. If he offered the banker, as payment, 5000 dollars that were not worth that much gold, the banker could, and would, say:

"No. I won't take those cheap dollars. You have to pay me back the same kind of dollars that I lent you."

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The debtor would then have to go to his employer and say:

"Look, you used to pay me $25 a week in dollars that my banker, and others, would accept as money for the payment of my debts. But now, they won't take the kind of dollars you have started paying me. They say those dollars are not worth as much as the old ones. So, I don't want any more of the new kind of dollars. I want to be paid in the old kind."

New deal economists knew that people would not accept the new, cheapened, Roosevelt dollar as legal tender; so, they used the force of law. In the Agricultural Adjustment Act of 1933 which authorized the President to cheapen the dollar there was a clause providing that all coins and currencies of the United States had to be accepted as legal tender, "dollar for dollar."

This meant that, if someone owed you 50 dollars, each of which had the value of 25.8 grains of gold, and he offered to pay you back with dollars that were not worth that much — you had to accept.

But the money manipulators in Washington were still tied to the gold standard. There still had to be some fixed relation between the amount of gold reserve the government had and the amount of currency it could issue.

On January 30, 1934, Congress abolished gold coinage and our standard gold dollar. It became illegal for Americans even to possess gold coins, much less try to use them. The President reduced the weight of the gold dollar from 25.8 grains to 15.24 grains — a reduction of 40 per cent in our standard of value.

This meant that Roosevelt, by one stroke, had confiscated 40% of the savings and investments of every person in the land. A man who had struggled and saved and denied himself for thirty years to lay aside $10,000 for his old-age retirement found that those dollars — in terms of what they would now buy for him — were worth only $6000.

Government could do this to its own citizens, because it could put them in prison if they resisted. But it could not do it to foreigners. So, ever since 1934, the United States government pays its obligations to its own citizens in whatever kind of currency it wants to issue, but foreigners can demand gold in payment of their claims against our government.

A good history of this remarkable operation can be found in *Inflation in the United States*, a little book written by Paul Bakewell, Jr., and published this year by The Caxton Printers, Ltd., Caldwell, Idaho. Price: $1.00.

Concerning the Act of January 30, 1934, which abolished the gold standard, and Roosevelt's 40% reduction of the value of our currency, Mr. Bakewell says:

"For the first time in our history, our government had attempted to raise prices by debasing the money. Both Congress and the President had declared their purpose to be to raise prices, and the President predicted a dollar of constant purchasing power. In his radio address of October 22, 1933, Mr. Roosevelt said: 'We are thus continuing to move toward a managed currency.'"

By 1937, Roosevelt economists had found a "managed currency" rationale — a set of spurious economic theories and arguments to "prove" that in a capitalist economy government should "manage" the currency in such a way as to create controlled inflation. The amount of inflation that was said to be good for our economy was about 3% a year.

To a few thoughtful people this "managed currency" program of decreasing the value of our dollar every year seemed wrong. If the dollar is depreciated by only 2% every year, it will lose 50% of its purchasing power in 25 years. This may not hurt speculators and great corporations and international bankers like Bernard Baruch. In fact, it might help them. They will have enough resources and know-how and "contacts" in government to take advantage of the "managed currency." But how about the bulk of our population: the people whose only hope for future security is work and frugality and savings — modest, long-range programs of investments in life insurance or stocks and bonds? If a man struggles 25 years to lay aside enough for comfort-

able retirement, he will find, at the end of that time, that the dollars he can collect from his savings and investments will buy only half as much as the dollars which he worked so hard to save.

Project this "managed currency" program a little further. If you inflate the dollar at the rate of 2% a year, in 50 years it will be inflated by 100%.

In other words, a "managed currency" will mean, in the long run, a worthless currency. This will mean economic chaos and ruin for the nation, just as it did in Germany after World War I and in every other nation where inflation destroyed the value of money.

The few thoughtful Americans who warned, in the 1930's, that the new deal program of gradually inflating the American dollar meant disaster in the long run, were contemptuously brushed aside by the brain trusters who dominated American thought in that strange era. Their favorite rejoinder to the cautious conservatives was that, in the long run we will all be dead. Why worry about the value of a dollar 50 years from now?

The man who is credited with providing the new deal rationale of a "managed currency" and planned inflation — and who is also credited with coining the cynical comment that we should not worry about the long-run effects of inflation because in the long-run we will all be dead anyway — was the British economist, John Maynard Keynes: the same John Maynard Keynes who wrote a book in 1919 saying,

"By a continuing process of inflation, governments can confiscate ... the wealth of ... citizens. ... Lenin certainly was right. There is no subtler ... means of overturning the existing basis of society than to debauch the currency."

Roosevelt's promise of a dollar which would have constant purchasing power was like many of his other promises. When the first Roosevelt administration began, our national debt was 19 billion dollars. By 1939, the debt was 48 billions. That 29 billion increase in the national debt meant approximately 6 times that much cheapened currency pumped into our economy — in other words, considerable inflation.

But the real inflation of the dollar began with our spending for World War II. By the end of the war, our debt was 265 billion dollars.

All economists who talk about inflation today speak of our dollar as a "48¢ dollar." They mean that *since 1939*, the American dollar has lost 52¢ in value.

If you are an American who started a twenty-year investment or savings program in 1939, to provide for yourself and family a fund of, say, $10,000 that you could start using in 1959, you will find that the $10,000 which you saved will not buy $10,000 worth of goods or property or services. It will buy only $4800 worth. During the 20 years when you worked and saved, government made it difficult for you to save $10,000, because government took, *in taxes*, approximately a third of every penny you earned. But you skimped and denied yourself and family many luxuries and some necessities, because you were determined to save that $10,000. At the end of the long stretch, you discover that, in addition to all the money which government has taken away from you in taxes for 20 years, government, by inflating the dollar, has stolen $5200 of your savings! Then, as you begin to collect and use your savings, government will tax that as income, too.

This comparison of the 1958 dollar with the 1939 dollar is striking and, as indicated, is the comparison that practically all economists make. What we tend to forget is that the 1939 dollar—which, today, we remember as a stable and valuable piece of currency — was, itself, a cheapened dollar. Remember that Roosevelt cheapened the real, American gold dollar by 40% in 1934 when he took us off the gold standard. Between then and 1939, he further cheapened the dollar by adding 29 billion dollars to the national debt.

If you will compare the purchasing power of the American dollar in 1958 with the pur-

chasing power of the American dollar of 1933, you will find that the American dollar has depreciated by about 75% in 25 years. In other words, we have precisely followed John Maynard Keynes' prescription for debauching our money at the rate of 3% a year. The "long-run" when the American dollar will be worthless and economic ruin will result has now become a short run — a dreadful eventuality which every American under the age of 60 can anticipate in *his* lifetime.

With the end of World War II and the Roosevelt era, inflation and deficit financing continued. Truman lambasted the Republican-controlled 80th Congress as the worst in history, merely because it tried to make government live within its means and stop inflation.

That was in 1948. Four years later, 1952, Republicans won control of both houses of Congress and of the White House. Eisenhower campaigned in 1952 on promises to stop the rotting away of the American dollar, to return the government to sound fiscal policies. In the first year of his first administration, President Eisenhower appeared to be trying to keep that promise. But the Eisenhower administration quickly folded under political pressures for reckless governmental spending.

President Eisenhower is still talking about the evils of inflation; but, in the past 6 years his administration has become the biggest peacetime spender in history.

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The President And The Squalling Cat

At a press conference on February 6, 1957, President Eisenhower threatened governmental controls, if business and labor refuse to hold the wage-price line against inflation.

Mr. Eisenhower said:

"Now, unless this happens, the United States then has to move in more firmly with so-called controls of some kind, and when we begin to control prices and allocations and wages, and all the rest, then it is not the America we know.

"Now, the reason that I am so concerned about all this is that I believe any intelligent man can see the direction we will have to go, unless there is some wisdom exercised not only in government but throughout the whole economy."

Eighteen months later — with the two biggest peacetime budgets in history behind him, and with his financial experts predicting a 12 billion, 200 million deficit in the current fiscal year—the President, whose administration was thus creating inflation at breakneck speed, was still worrying about inflation and threatening to do something if unions and business did not do something to stop it.

At his press conference on August 6, 1958, President Eisenhower was asked whether he has any plans to curb inflation.

The President — in one of his long, and rather remarkable, sentences — said that our whole industrial civilization is built around the key features of pensions and social security for workers; a worker (or his employer) pays into a pension fund for 30 years; but inflation takes away the value of the dollars so that, when the worker retires, the dollars he collects for his pension are not worth as much — will not buy as much — as the dollars he paid into the pension fund.

President Eisenhower then said:

"Therefore . . . if we are going to remain a country without artificial control, meaning that we are not going to try to go into a federally controlled economy, then labor and business must be very, very careful about this whole problem of pushing wages each year above those rates that imply or show the increases in productivity, and business must make its profits of such a scale that where they can still continue to invest money they are not robbing the public."

Commenting on the President's remarks, Dean Clarence Manion, on his nationwide radio broadcast, said:

"When you stand on a cat's tail, you may expect the poor creature to give forth with an ear-splitting scream. Removal of its vocal cords is not the easiest way to restore quiet.

"Like the scream of the hurt cat, prices and wages will continue to rise as long as the Federal Government continues to pump more and more printing press money into the stream of commerce.

"The President is frightened by inflated prices. He should be frightened by the deflated, depressed and devaluated dollars which the inflated prices clearly and properly reflect....

"When any person has written checks for the full amount of his bank balance, he either quits writing checks or prepares to go to jail....

"Congress writes checks in the form of appropriations with no regard or reference to Treasury balances.... Whereas, your overdraft bounces back at you with penal repercussions, the Congressional overdraft is put into circulation as money, and you and I and everybody must accept that fiat currency in payment for our goods and services.

"In this irresponsible manner, the milk of American money is now being continuously watered by socialist politicians who, in their determination to buy votes, are blind to the disastrous effect upon the savings, the life insurance, the pensions, the wages and other income of the American people....

"It would be amusing, if it were not tragic, to hear the President admonishing the cat to be quiet. If the cat could talk back, it would tell the President to please get off its tail."

Full copies of Dean Manion's radio talks can be obtained for 10¢ each (or on subscription basis) from the Manion Forum, South Bend, Indiana.

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Who Causes Inflation?

In his figure of the President standing on a cat's tail and threatening to cut its throat if it doesn't stop squalling, Dean Manion was graphically illustrating the fact that *only* government causes inflation, *directly.*

Unions do cause inflation, indirectly, and business does too, by exerting pressures which cause government to follow inflationary policies—and by using the special privileges which government gives them to promote inflationary practices.

It was not only Bernard Baruch and other international financiers who urged the policies of cheap money manipulation upon Roosevelt, because they saw in these policies golden opportunity for themselves. Other selfish interests in our society helped push and pull Roosevelt along too. Big business liked the cheap Roosevelt dollars, because that meant more government spending — which meant more government contracts. Big business felt it could make more in profit than it would lose by inflation. And it did.

Big unions also wanted inflation. Since 1933, the union movement in the United States has lived on hate. Unions had to convince workers that management was evil and that all pay raises were obtained by unions.

But there is a limit to which wage-raises can go, without bankrupting the company that pays the wages. If government is steadily inflating the dollar, however — continuously dumping cheapened money into the economy — all prices, including the price of labor, will steadily rise; and unions can, therefore, take credit for steadily increasing the wages of workers.

Big unions, moreover, have almost the same interest in government spending that big business has. Government contracts mean profits (often guaranteed) to business. They mean bigger and more powerful unions for union bosses. A company living on government contracts will not seriously resist unreasonable union demands for higher wages, because it can pass the increased cost along to government. Government won't mind, because government — bidding for the political support of union bosses — has given unions the special privilege of government-guaranteed monopoly power, great enough to enforce their demands.

It is true that in the late '20s and early '30s many industries were taking advantage of workers. Unemployment was so widespread that hungry men would work for anything. Many businesses hired men for far less than they should have paid them. This was a temporary condition that would have corrected itself if government — and government-supported unions — had stayed out of the way.

Our economy was sick because of governmental meddling and controls and taxation during World War I. If government had stayed out of the way to permit our free economy to restore its own balances, both labor prices and commodity prices would have found their reasonable and just level in a free market. Competition for customers would have forced industry to bring prices down; and competition for good workers would have forced industry to pay decent wages. Very quickly, the two — wages and prices — would have made their own adjustment in a vigorous, free economy.

But Roosevelt convinced the nation that freedom would no longer work. Government had to take over, and, in making such a radical change in the whole American system, had to buy the political support of special interest groups by adopting policies which would give the groups what they wanted—money manipulation for the international bankers, contracts for business, power and money for union bosses.

Such a system soon becomes a vicious circle, however. The new deal programs were stimulating to the special interest groups who profited immediately, but they began to hurt the great body of people, because the average man could not possibly save enough to offset the rotting away of the dollars he was saving. This was serious, because it meant that the great body of the people would realize what was going on and repudiate the whole dishonest thing at the polls. Government anticipated this incipient revolt: it got into the welfare business, promising to provide for people the unemployment benefits and old-age security that its own policies prevented them from providing themselves.

When government gives the people something, it has to take something away from them, doesn't it? Government cannot create wealth. Only people can do that. The only thing that government can give to the people is something that it has first taken away from them.

This presented a problem. Government went into the welfare business, not because it wanted to help anyone, but because it wanted to forestall public revolt against its own policies. If you have to take money away from people in order to give it back to them, will this make them happy? Not for long. People, despite what Harry Hopkins kept telling Roosevelt, are not that dumb. The thing to do is to borrow from future generations in order to provide benefits for the present, voting, generation. A few will worry about the fate of their grandchildren. A few will feel ashamed that they are getting something that their children's children will have to pay for. But not many. Besides, no one understands economics anyway. If too many people start getting scruples about stealing from their grandchildren, the "best brains" in the world — from John Maynard Keynes in England, to the communist-socialist intellectuals in the new deal agencies at Washington, to their idolators on university faculties throughout the land — can explain that we don't need to worry about the national debt, because we just owe it to ourselves; that in fact, a big national debt is good for our economy!

So, the people accepted welfare promises from a government which had made it impossible for them to provide their own welfare. Government paid for the welfare benefits by deficit financing — by borrowing from generations yet unborn.

Again, the system met itself coming around the corner. War came. The government couldn't borrow enough — even from the unprotesting Americans not yet born — to pay its bills and keep the present generation happy. The present generation had to start paying a bigger share of its own benefits: taxes had to be increased, sharply. When you increase taxes, the people you hurt most are the "little" people, because — however much you may soak the rich — most of the tax money still must

come from people with modest incomes. These, who make up the bulk of our voting population, are the very ones that government had been trying to keep happy with benefits that someone else would pay for.

How could government keep them happy if it started taxing them to pay for their own benefits? Government found an answer to that question, too: the withholding tax. Take the tax away from workers before they ever get their pay. They will quickly adjust themselves to "take-home" amounts. They will then blame their employers, and not government, for the small size of their take-home pay. That will be fine, because it will help the union bosses: union bosses can condemn bloodsucking employers and demand higher wages, to offset what government has taken out of the paychecks. With every pay-raise, which can be passed on to taxpayers and consumers anyway, government's kick-back from the wage checks increases; and the union bosses' power increases.

By the end of the war, even this system began to meet itself coming around the circle. Union-supported governmental policies had so rotted away the dollar that the regular industry-wide wage raises were not enough to keep up with the rising cost of living. Unions invented the "escalator principle," tying wages in unionized industries to the rising cost of living.

Now, the only people who would suffer from inflation would be the millions who still try by hard work and frugality to take care of themselves. Maybe, as more and more of these become desperate, they will join unions — and that will speed the coming of the great tomorrow: socialist labor dictatorship for America.

By 1958, however, it was becoming increasingly apparent to most that the vicious circle was still vicious and becoming more so. Many were beginning to see that we will soon reach the time when no man — not even the powerful and specially privileged — can outrun this game. The end result of the policies which our government has followed since 1934 is utter ruin for all — big and little alike.

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What To Do About Inflation

Thurman Sensing, Executive Vice President of Southern States Industrial Council (1103 Stahlman Building, Nashville, Tennessee) in the May 1, 1958, issue of the Council's *Bulletin,* said:

"We could commit a no more dastardly crime than to pass this (national) debt on to our children and our children's children as if we were in no way responsible

for it — and yet that is what we give every indication of doing. . . .

"Sooner or later we must bring an end to this inflation, we must repent of our sins, or we shall eventually sink into the depths of degradation that have always been the fate of nations that have followed this course."

Mr. Sensing's specific proposal is a constitutional amendment which would compel government to live within its means — which would make deficit financing unconstitutional.

T. Coleman Andrews (former Commissioner of Internal Revenue) has published a pamphlet entitled "Wasteful Spending: Your Income Tax and Inflation."

Here is a sampling:

"As burdensome as taxes have become . . . inflation has become even more so. In fact, inflation's assault upon our incomes has become positively vicious, especially for those in the low income brackets, where of all levels, it is highest and runs as much as four times the increase in taxes. . . .

"For example . . . an income of $2,000 was worth $1975 in 1939 but would buy only $863 of groceries in 1957. Where did the difference of $1112 go? Tax increases took $215 of it; inflation took the balance of $897. . . .

"Now . . . let's look ahead 18 years. . . . to 1975. . . . Assuming that our reckless effort to destroy ourselves doesn't succeed before then. . . . the dollar will be worth less than 25¢ and it will take an income of $10,538 to match a 1939 income of $2,000. . . .

"Taxes and inflation are deteriorating our buying power so fast that our pocketbooks will be empty and our cupboards bare years before 1975. . . . If this is allowed to happen — and it very definitely can be prevented — no power on earth will be strong enough to prevent . . . a depression that will make the dark days of the 30's seem like an era of boisterous prosperity. . . ."

Every thoughtful American should study T. Coleman Andrews' pamphlet on income tax and inflation. It may be obtained from Economic Research Associates, 6 Iris Lane, Richmond 26, Virginia. Price: single copy, 25¢; special rates for quantity orders.

My own proposal for stopping inflation is that we repeal the income tax and compel the federal government to stop all unconstitutional activities.

Saying that high wages and high prices cause inflation is like saying that wet streets cause rain. High wages and high prices accurately reflect the inflation which government causes by taxing and borrowing and spending — for activities that clearly violate basic provisions of the Constitution of the United States.

WHO IS DAN SMOOT?

Dan Smoot was born in Missouri. Reared in Texas, he attended SMU in Dallas, taking BA and MA degrees from that university in 1938 and 1940.

In 1941, he joined the faculty at Harvard as a Teaching Fellow in English, doing graduate work for the degree of Doctor of Philosophy in the field of American Civilization.

In 1942, he took leave of absence from Harvard in order to join the FBI. At the close of the war, he stayed in the FBI, rather than return to Harvard.

He served as an FBI Agent in all parts of the nation, handling all kinds of assignments. But for three and a half years, he worked exclusively on communist investigations in the industrial midwest. For two years following that, he was on FBI headquarters staff in Washington, as an Administrative Assistant to J. Edgar Hoover.

After nine and a half years in the FBI, Smoot resigned to help start the Facts Forum movement in Dallas. As the radio and television commentator for Facts Forum, Smoot, for almost four years spoke to a national audience giving both sides of great controversial issues.

In July, 1955, he resigned and started his own independent program, in order to give only one side — the side that uses fundamental American principles as a yardstick for measuring all important issues.

If you believe that Dan Smoot is providing effective tools for those who want to think and talk and write on the side of freedom, you can help immensely by subscribing, and encouraging others to subscribe, to *The Dan Smoot Report.*

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